

Message Text

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TO USMISSION GENEVA

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY BELGRADE

USMISSION USUN NEW YORK

INFO USMISSION EC BRUSSELS

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TAGS:EFIN, OVIP (SCRANTON, WILLIAM)

SUBJECT:INTERNATIONAL RESOURCES BANK: ISSUES/TALKING
POINTS PAPER

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GENEVA FOR GOVERNOR SCRANTON/ USUN FOR CARTER

1. FOLLOWING PAPER ON THE INTERNATIONAL RESOURCES BANK (IRB) IS FOR GOVERNOR SCRANTON'S USE IN HIS VISITS TO THE NETHERLANDS, BELGIUM, DENMARK AND YUGOSLAVIA DURING THE LATTER HALF OF JULY.

BEGIN TEXT: ISSUE. A MAJOR ELEMENT OF THE US COMMODITY POLICY APPROACH IS SUPPORT OF AN ADEQUATE DEVELOPMENT OF RESOURCES IN THE DEVELOPING COUNTRIES. TO THIS END, THE UNITED STATES PROPOSED THE CREATION OF AN INTERNATIONAL RESOURCES BANK (IRB), IN SECRETARY KISSINGER'S ADDRESS TO THE UNCTAD IV CONFERENCE IN NAIROBI, MAY 6. A RESOLUTION CALLING FOR STUDY OF THE IRB PROPOSAL WAS DEFEATED ON THE LAST DAY OF THE CONFERENCE BY A VOTE OF 31-33, WITH 44 COUNTRIES ABSTAINING AND 46 ABSENT. DEVELOPED COUNTRIES PROVIDED THE MAIN SUPPORT FOR THE PROPOSAL.

BACKGROUND/ANALYSIS: WE BELIEVE THE PROPOSAL CALLING FOR STUDY OF THE IRB WAS DEFEATED FOR REASONS LARGELY EXTRANEIOUS TO THE MERITS OF THE PROPOSAL; E.G., BLOC VOTING BY THE

SOCIALIST COUNTRIES, PIQUE ON THE PART OF AFRICAN COUNTRIES OVER THEIR EXCLUSION FROM HIGH-LEVEL MEETINGS ON THE COMMODITIES RESOLUTION DURING THE FINAL DAYS OF UNCTAD-IV, GENERAL DISORGANIZATION, EARLY DEPARTURES AND LACK OF INSTRUCTIONS FOR MANY DELEGATIONS. SOME DEVELOPING COUNTRIES DID, HOWEVER, EXPRESS CONCERN THAT THE EFFECT OF AN IRB WOULD BE TO LOWER RAW MATERIALS PRICES TO THEIR DETRIMENT.

WE HAVE UNDERTAKEN THE PROCESS OF BUILDING SUPPORT FOR THE IRB PROPOSAL THROUGH BILATERAL REPRESENTATIONS AND THROUGH THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION (CIEC) IN PARIS. WE RECOGNIZE THAT CIEC AND ITS CONSTITUENT ELEMENTS DO NOT PROVIDE AN APPROPRIATE FORUM FOR NEGOTIATING THE ESTABLISHMENT OF AN IRB, WHICH WE BELIEVE WOULD BE BEST DONE WITHIN THE IRBD FRAMEWORK, EITHER BY A SPECIALLY CONVENED NEGOTIATING GROUP OR BY THE EXECUTIVE DIRECTORS. HOWEVER, WE INTEND TO USE BOTH CIEC AND THE BILATERAL APPROACH TO BUILD SUPPORT

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AMONG KEY DEVELOPING COUNTRIES FOR THE MAJOR CONCEPTUAL ELEMENTS OF OUR APPROACH TO THE PROBLEM OF INVESTMENT IN DEVELOPING COUNTRY RESOURCE PROJECTS AND THE IRB INITIATIVE AS A MEASURE TO DEAL WITH THE PROBLEM.

OF THE FOUR COUNTRIES YOU WILL BE VISITING, THE NETHERLANDS, BELGIUM AND DENMARK VOTED IN FAVOR OF THE IRB RESOLUTION, WHILE YUGOSLAVIA ABSTAINED. RECENT CABLES

FROM AMEMBASSY BELGRADE AND FROM THE US DELEGATION TO ECOSOC IN ABIDJAN INDICATE THAT THE YUGOSLAVS ARE LEANING TOWARD SUPPORT OF THE IRB, AND YOUR RAISING THE SUBJECT WITH THEM WOULD BE PARTICULARLY USEFUL.

TALKING POINTS: -- THE INTERNATIONAL RESOURCES BANK WOULD DO THE FOLLOWING:

A. MOBILIZE AND ENCOURAGE THE FLOW OF PRIVATE AND PUBLIC CAPITAL, PRIVATE MANAGEMENT AND TECHNOLOGY TO PROJECTS OR PROGRAMS IN DEVELOPING COUNTRIES WHOSE PARTICIPANTS INVITE ITS COOPERATION;

B. ENCOURAGE ADHERENCE TO STANDARDS OF EQUITY AND FAIR TREATMENT OF BOTH HOST COUNTRIES AND FOREIGN PARTICIPANTS IN RESOURCE DEVELOPMENT; AND

C. THEREBY REDUCE POLITICAL OBSTACLES TO INTERNATIONAL ECONOMIC COOPERATION IN RESOURCE FIELDS.

-- THE PRIMARY FUNCTION OF THE INTERNATIONAL RESOURCE BANK WOULD BE TO FACILITATE THE FINANCING OF RESOURCE INVESTMENT PROJECTS IN RAW MATERIALS, POSSIBLY INCLUDING OIL AND NATURAL GAS, THROUGH GUARANTEE OF PERFORMANCE AND PAYMENT COMMITMENTS OF HOST COUNTRIES AND PRIVATE INVESTORS PARTICIPATING IN THE PROJECT. THESE PERFORMANCE AND PAYMENT GUARANTEES WOULD BE BACKED UP BY A \$1 BILLION DOL LOSS RESERVE FUND.

-- THE MAIN PURPOSE OF THE INTERNATIONAL RESOURCE BANK WOULD BE TO ENABLE RESOURCE INVESTMENT TO BE UNDERTAKEN MORE EFFICIENTLY. THE PRESENCE OF THE BANK IN A PROJECT SHOULD ENABLE COMMERCIAL VIABILITY CONSIDERATIONS

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TO PLAY A MORE IMPORTANT ROLE RELATIVE TO POLITICAL CONCERNS IN INVESTMENT DECISIONS AND EXERT A MODERATING INFLUENCE ON HOST COUNTRY DISPUTES WITH PRIVATE COMPANIES.

-- NEW PROJECTS PARTIALLY FINANCED BY THE IRB IN DEVELOPING NATIONS MIGHT BE THE SUBJECT OF A TRILATERAL AGREEMENT IN WHICH A CONSORTIUM OF FOREIGN INVESTORS, THE HOST COUNTRY GOVERNMENT, AND THE IRB WOULD PARTICIPATE. FOR EXAMPLE, THE AGREEMENT MIGHT SPECIFY:

A. AN AGREED PLAN FOR PREPRODUCTION ACTIVITIES TO COMPLETE TECHNICAL AND COMMERCIAL EVALUATION OF THE PROJECT;

B. THE BASIS FOR FINANCING THE PROJECT, INCLUDING EQUITY CONVENTIONAL LOANS AND POSSIBLY BONDS UNDERWRITTEN BY THE

IRB;

C. IF BOTH INVESTORS AND HOST GOVERNMENT AGREE, A FORMULA FOR SHARING THE PRODUCTION FROM THIS INVESTMENT, WITH FIRST PRIORITY TO HOLDERS OF THE PROJECT BONDS AND THE BALANCE SPLIT BETWEEN THE PROJECT CONSORTIUM AND THE HOST GOVERNMENT;

D. PERFORMANCE AND PAYMENT GUARANTEES BY BOTH THE HOST GOVERNMENT AND THE PRIVATE FIRMS IN THE CONSORTIUM.

-- THE IRB'S MANNER OF OPERATION WOULD DIFFER FROM THE WORLD BANK'S IN A NUMBER OF WAYS. FIRST, IT WOULD PARTICIPATE AS A PARTY TO THE TRILATERAL AGREEMENT. SECOND, IT WOULD RAISE LOAN CAPITAL ON A PROJECT-BY-PROJECT BASIS, IN A MANNER TAILORED TO THE PARTICULAR PROJECT AND IN A BACK-TO-BACK FASHION, WITH THE PROCEEDS OF BOND SALES BEING TURNED OVER TO THE PROJECT. IN THIS RESPECT, IT WOULD FUNCTION SOMEWHAT LIKE AN UNDERWRITER. THIRD, THE IRB WOULD SECURE LOANS BY LIENS ON THE PRODUCTION FROM A SPECIFIC PROJECT.

-- THE INTERNATIONAL RESOURCES BANK WOULD OPERATE WITHIN THE WORLD BANK GROUP OR UNDER SOME FORM OF ASSOCIATION WITH IT. ASSOCIATION WITH THE WORLD BANK GROUP WOULD PROVIDE EFFECTIVE MANAGEMENT OF THE INSTITUTION AND WOULD UNCLASSIFIED

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HELP THE IRB IMAGE WITH POTENTIAL INVESTORS WHO REGARD THE WORLD BANK AS A RESPONSIBLE INTERNATIONAL INSTITUTION WITH A NODEFAULT RECORD. IT WOULD AVOID THE PROBLEMS AND DIFFICULTIES OF ESTABLISHING ANY NEW INTERNATIONAL BUREAUCRACY.

-- IT WOULD INITIATE OPERATIONS WITH CONTRIBUTED CAPITAL OF 1 BILLION DOLS TO FORM A LIMITED LIABILITY LOSS RESERVE FUND. ADDITIONAL CALLABLE CAPITAL MAY BE AUTHORIZED TO BACK UP THE LOSS RESERVE. OPEC NATIONS AND INDUSTRIALIZED NATIONS WOULD SUPPLY MOST OF THE LOSS RESERVE AND DEVELOPING COUNTRIES COULD MAKE CONTRIBUTIONS IN ACCORDANCE WITH THEIR ABILITY TO PAY. THE UNITED STATES' CONTRIBUTION TO THE LOSS RESERVE FUND WOULD DEPEND ON THE CONTRIBUTION OF OTHERS. THE IRB WOULD OPERATE UNDER A BOARD SYSTEM BASED ON WEIGHTED VOTING.

-- CONCERNS WHICH HAVE BEEN EXPRESSED BY SOME DEVELOPING COUNTRIES ABOUT THE PRICE DEPRESSING EFFECTS OF ADDITIONS TO PRODUCTIVE CAPACITY ARE UNWARRANTED. THE IRB IS INTENDED TO FACILITATE THE FINANCING OF PROJECTS TO SUPPLY NEW PRODUCTIVE CAPACITY FOR THE NEXT SEVERAL DECADES, THUS

HELPING TO ENSURE THAT SERIOUS SHORTAGES OF RAW MATERIALS
DO NOT OCCUR. BECAUSE OF THE VERY LONG LEAD TIMES (UP TO
10 YEARS) FOR MOST MINERAL AND ENERGY PROJECTS, THERE IS
MORE REASON TO BE CONCERNED ABOUT AN INSUFFICIENCY OF PRO-
DUCTIVE CAPACITY THAN THE REVERSE. END TEXT. KISSINGER

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